

#### City of San Jose

**Advisory Committee for the Apartment Rent Ordinance** 

**Ordinance Overview & Education** 

Wednesday, September 30, 2015
Roosevelt Community Center







#### **Item B – Welcome & Introductions**

# **Item C - Expectations & Outcomes**

- Facilitated by neutral, 3<sup>rd</sup> party facilitator
- Temperature checks
- How staff will use the information from this process
- Committee is <u>advisory</u>

### **Expectations**

- Be committed to the process
- Focus on interests over positions
- Learn from differences
- Seek areas of agreement
- Help the committee achieve its goal

#### **Ground Rules**

- Speak candidly and listen openly
- Question ideas, respect Committee members
- One person speaks at a time

#### **Item D – Brown Act & Conflicts**

# Open Meetings & Conflicts Advisory Committee City of San José



# **Outline**

- 1. Committee Meetings —the Brown Act and City "Sunshine" Policy
- 2. Conflicts of Interest –the Political Reform Act and the Stakeholder Committee
- 3. Questions and Answers



- **Purpose**: The Ralph M. Brown Act, Government Code Sections 54950 54963, was enacted in 1953 to ensure the local government meetings *were open and public*.
- **Scope**: Applies to any "legislative body", decision-making or advisory, *including any board, commission or committee created by the legislative body*. The main exception is for those ad-hoc subcommittees formed solely of less than a quorum of the legislative body.



- All meetings of the Committee must be open to the public.
- A Meeting is: "any congregation of a majority of the members of a legislative body at the same time and location... to hear, discuss, or deliberate on any item that is within the subject matter jurisdiction of the legislative body or the local agency to which it pertains."



- **Prohibited Serial Meetings**: Use by a majority of the members of "a series of communications of any kind, directly or through intermediaries, to discuss, deliberate, or take action on any item of business that is within the subject matter jurisdiction of the legislative body."
  - ❖ The "Daisy Chain" Serial Meeting, the "Hub And Spoke".
  - Staff briefings
- The Committee may only discuss items that are on the Agenda.



- **Public Comment**: Each meeting must provide an opportunity for the public to comment on items within the Committee's jurisdiction. The public is also allowed to comment on each item on the agenda, prior to or during the Committee's consideration of that item.
- Criticism of the Committee and the City is allowed.
- The Facilitator is empowered to rule speakers out of order, or otherwise act to prevent disorderly conduct and to enforce time limits. There are specific time limits on public comment and the meetings may use speaker cards.



#### The Political Reform Act of 1974

• The Political Reform Act includes conflict restrictions, gift and other limits, and disclosure requirements.

Public officials who are *making or attempting to influence a decision* and have a *financial interest in the decision* will have a disqualifying conflict if the effect of the decision is *reasonably foreseeable*, *material* and different from the *public generally*.



#### The Political Reform Act

- Making or attempting to influence a decision includes making recommendations and reports to a decision maker.
- *Financial interest* includes effect on personal finances, and sources of income or gifts, business entities, real property. (Includes spouses, too.)
- *Material* means not nominal, inconsequential, or insignificant; specific tests for each type of financial interest are located in the FPPC regulations.
- Whether an effect is *Reasonably Foreseeable* is determined by an FPPC test.



#### The Political Reform Act

This Committee is operating under the exemption to the Political Reform Act for members of bodies that are solely advisory without decision-making authority.



# **Questions and Answers**

Questions?



# **Item E – Presentation on the City's Apartment Rent Ordinance (ARO)**

# Why We Are Here

- Period of significant rent increases
- June 16, 2015: Council meeting on ARO
- June 23, 2015: Council identifies exploration of potential modifications to ARO as 2<sup>nd</sup> highest policy priority
- September 1, 2015: Council approves workplan and creates the Advisory Committee

# **Declaration of Policy & Purpose of ARO**

"It is found that there is a growing shortage of and increasing demand for housing in the city of San Jose. This circumstance, coupled with increasing inflation, the rising cost of developing new housing, and other factors have put substantial upward pressure on residential rents."

# **Declaration of Policy & Purpose**

"In order to protect the health, safety and welfare of the citizens of San Jose, [this ARO] is a necessary measure designed to alleviate some of the more immediate needs created by San Jose's housing situation. These needs include but are not limited to:

- the prevention of excessive and unreasonable rent increases,
- the alleviation of undue hardship upon individual tenants,
- and the assurance to landlords of a fair and reasonable return on the value of their property"

# **History of ARO**

- August 7, 1979: ARO adoption date
- September 7, 1979: ARO effective date
- June 18, 1985: ARO amended to separate mobilehomes
- January 17, 1989: ARO regulations adopted
- October 28, 2002: New noticing requirements added

# **Focus of Council Policy Priority**

- Types of properties covered
- Rate of allowable annual increase
- Debt-service pass-through provision
- Notification to terminate tenancy & reporting requirements
- Enforcement, monitoring, and data
- On September 1, Council directed staff to explore income qualifications and duplexes

# **Properties Covered by the ARO**

- 48,500 apartments covered under ARO
- Properties with 3 or more units
- First rented before September 7, 1979
- Annual exemption process
  - Section 8 units
  - Owner-occupied units

# **Properties NOT Covered by the ARO**

- Apartment first rented after September 7, 1979
- Properties with less than 3 units (single-family homes, duplexes)
- Condos and townhomes
- Transient residential (<30 day stay)</li>
- Non-profit homes for the aged, school dormitories
- Apartments with government subsidies

#### **Scenario**

Which of these properties is subject to the rent stabilization provisions of the ARO?



Multi-Family Housing built in 2003



Gov't Subsidized Affordable Housing



Multi-Family Housing built in 1972



**Single-Family Homes** 

#### **Allowable Annual Increases**

#### **Allowable Annual Increase**

- Based on date of last increase
- Maximum annual rent increase of 8% every 12 mos
- If more than 24 mos w/o increase, 21% increase is allowed
- Separate process in ARO to recover cost pass-throughs
  - Operations & maintenance
  - Capital improvements
  - Rehabilitation
  - Debt-service

### **Noticing Requirements: Rent Increase**

- State law requires minimum 30-day notice for rent increase
- Applies to both ARO and non-ARO apartments
- Proposed annual rent increase over 8% is not allowed, <u>unless</u> it includes an approved cost pass-through that has gone through City's petition process
- Responsibility falls to tenant to notify City of improper noticing of a rent increase or of an excessive increase

#### **Scenario**

- Jessica lives in an ARO unit and has not received a rent increase for three years
- Receives a notice that her rent will increase 6%
- Receives a notice for an 8% increase one year later
- Nothing about her apartment conditions has changed
- Jessica files a petition for an excessive rent increase
- Is her petition valid?

**No.** As long as Jessica is not experiencing a reduction in services or housing code violations and the annual increase is less than or equal to than 8% every 12 months, the rent increase is valid. Jessica's petition will not result in a hearing.

#### **Scenario**

- Tim moved into his ARO apartment on January 18, 2015
- On September 1, 2015, he received a 60-day notice that his rent will increase 8% on November 1, 2015
- Tim files a petition for excessive rent increase
- Is this an eligible petition?

**Yes.** Section 17.23.200 of the ARO indicates that the rent may not be increased more than once in any twelve-month period for an ARO-unit.

# **Cost Pass-Through Provisions**

# **Cost Pass-through: Definition**

- Apartment owners/managers can pass costs to renters
- ARO allows for building upkeep and financial return
- Four types:
  - Operations & Maintenance
  - Capital improvement
  - Rehabilitation
  - Debt-service

# **Cost Pass-through: Provisions**

- Owner/manager files a petition with the City
- Within 5 days of filing with the City, owner/manager provides tenant notice of rent increase
- Obtain a determination of eligibility and pass-through amount from the City
- Tenant can challenge rent increases due to pass-through
- Rent increases that result from an approved passthrough remain in perpetuity

# **Cost Pass-through: Allowable Increase**

Pass-through Amount

Annual increase up to 5%

**Existing Base Rent** 

Operations & Maintenance
Capital Improvements
Rehabilitation

When combined with a passthrough, annual allowable increase is lowered to 5%

<sup>\*</sup>diagram not to scale. For illustrative purposes only

#### **Scenario**

- Josh lives in an ARO unit
- His landlord installed a new roof to prepare for El Niño
- Josh receives notice of a 6% increase + proportionate cost of the roof
- Josh and his neighbors contest the rent increase
- Can the property owner be awarded the rental increase of 6% + the cost of the roof?

**No.** When capital improvement, operations and maintenance, and rehabilitation costs are passed onto tenants, the annual allowable rent increase is capped at 5%.

# **Debt Service Pass-through: Provisions**

- Purchaser of an ARO-building can pass a percentage of debt-service costs (mortgage payments) to tenants
- Rent increase from this pass-through continues in perpetuity, even after owner pays off mortgage
- Cannot combine with other rent increase (5% or 8%) in the same year

## **Debt Service Pass-through: Data**

- 14 debt-service pass-through petitions heard since 2010
- Requested pass-through amounts of actual petitions:
  - Range: Rental increase of \$238 \$892/mo
  - Average: \$446/mo
  - Average % increase: 38%

## **Debt Service Pass-through Scenario**

- Loan amount: \$1,800,000
- Monthly mortgage payment: \$5,000 (30-year fixed)
- Number of units: 4

Unit	Square Feet	Existing Rent
1	1,288	\$1,570
2	768	\$1,050
3	768	\$1,050
4	868	\$1,380

## **Debt Service Pass-through Formula**

STEP 1: Property owners submit financial documents to City

**STEP 2:** Determine the Loan to Value ratio of the loan based on the new lender's appraisal; use the following formulas to determine pass through

#### Formula 1 - LTV 70% or less (30% downpayment or more)



Formula 2 - LTV 71% or more (29% downpayment or less)

## **Debt Service Pass-through Formula**

STEP 3: Use the calculated pass-through amount to distribute the cost among units, by unit or by square foot

#### By Unit:

Monthly increase ÷ Number of units = Cost justified rent increase

\$4,000/mo

4

= \$1,000/mo

#### By Cost per Square Foot:

Monthly increase ÷ Total sq. footage = Pass through per sq. ft.

\$4,000/mo ÷

3,692 = \$1.08/sq ft.

## **Debt Service Pass-through Outcome**

- Loan amount: \$1,800,000
- Monthly mortgage payment: \$5,000 (30-year fixed)
- Number of units: 4

Unit	Sq. Ft.	Cost/ sq. ft.	Monthly rent increase	Existing rent	New Monthly rent	Monthly rent increase
1	1,288	\$1.08	\$1,391.04	\$1,570	\$2,961.04	89%
2	768	\$1.08	\$829.44	\$1,050	\$1,879.44	79%
3	768	\$1.08	\$829.44	\$1,050	\$1,879.44	79%
4	868	\$1.08	\$937.44	\$1,380	\$2,317.44	67%

- Angelica's building was purchased on January 2, 2012
- The new owner filed a debt-service petition, which increased Angelica's rent by \$650/mo
- Two years later, she received a notice of a 20% rent increase effective February 2, 2014
- The next year, the owner files a capital improvement pass-through petition equal to a 12% per unit increase, which includes a 5% annual increase.
- Are these increases allowed by the ARO?

**Yes.** The ARO allows for these rental increases.

- Sam owns an ARO apartment and has incurred an additional 6% in operation and maintenance cost last year.
- The 8% allowable increase is enough to cover those costs or Sam can file a petition to pass through these increased costs.
- If Sam files a petition what is the maximum increase he can receive?

If Sam files a petition, he can obtain up to 11% increase based on a 5% rent increase and the pass-through.

## **Termination of Tenancy**

#### **Terms**

- Eviction = Order to vacate based on cause (reason)
  - Non-payment of rent under the terms of the agreement
  - Substantial violation of the rental agreement
  - Legal process is called "unlawful detainer"
- Termination of Tenancy = Notice to vacate without cause
  - Also referred to as "Non-renewal of a lease"
  - "No-cause eviction"
- Voluntary Move Out = Tenant chooses to leave the property
  - Must give notice to landlord/owner
  - Even if a tenant leaves under duress, still considered a voluntary move out

## **3-Day Eviction Noticing**

- Determined by State law
- 3-day evictions applies to both ARO and non-ARO apartments
- Typical causes
  - Non-payment of rent
  - Substantial violation of rental agreement
- Noticing requirement does not change regardless of duration of tenancy

## **Termination of Tenancy: Tenant Notification**

- No reason (cause) required for terminating tenancy
- Tenancy of less than a year
  - 30-day "no cause" notice
- Tenancy of more than a year
  - 60-day "no-cause" notice + offer to arbitrate
    - Tenant's responsibility to file a petition
  - 90-day "no-cause" notice
  - 120-day "no-cause" notice if vacancy rate < 3%

## **Termination of Tenancy: Notifying the City**

- City must be notified for all no cause tenancy terminations
- Documents required:
  - Copy of notice to vacate
  - Filing statement
- Submit to City within five days of serving tenant

#### **Rents for New Tenants**

- Voluntary move out: Owner can immediately raise rent to market for new tenant if previous tenant voluntarily moves
- Termination of tenancy:
  - Rent last increased within 12 months = landlord cannot increase rent for the new tenant, who must receive the same rent for 12 months
  - Rent last increased 12 24 months = landlord can immediately increase rent up to 8% for new tenant
  - Rent last increased outside of 24 months = landlord can immediately increase rent up to 21% for new tenant

## Retaliation

- State law prohibits retaliatory eviction or termination of tenancy
- Considered retaliation if eviction or termination due to a tenant's filing a petition
- Tenants have burden of proof to demonstrate retaliation
- Tenants can pursue legal remedies through the Courts

- Aaron has lived in his apartment for two years
- He and upstairs neighbor moved in at same time
- His neighbor has late night workouts and drops his weights on the floor.
- Aaron informs his landlord, who says it will take 90-days to remove the problem tenant.
- Is his landlord correct?

**Yes.** Because the bad tenant has lived in the unit for more than a year, the landlord must provide either a 60-day notice with the offer to arbitrate or a 90-day notice. The landlord went the 90-day option, which cannot be contested unless there are housing code violations or a claim of reductions in services. Note that this assumes a normal rental housing market.

- Gina is a low-income mother with two children
- They have lived the their ARO apartment for three years
- She pays her rent on time and follows the rules
- Gina receives a 90-day notice of termination of tenancy
- She does not have a car and her children are in the middle of the school year
- Are there any protections for Gina?

**No.** Because the Ordinance allows for a no-cause termination of tenancy, Gina must find a new place to live. Gina can contact non-profit agencies that assist with housing search and deposit assistance.

- A tenant in an ARO unit with a month-to-month lease paying \$1,000 has decided to move
- A new tenant moves in and signs a \$2,200/mo lease
- Later, the new tenant learns that her rent is much higher than the last tenant's.
- She files a petition for an excessive rent increase?
- Would this petition be eligible for a hearing?

**No.** When a tenant voluntarily moves out of an ARO unit, the property owner has the right to raise the rent to the market rate for a new tenant. The annual allowable increase does not apply.

## Petition Process, Enforcement & Data Collection

## Rental Rights & Referrals Program

- Administer the mediation/arbitration program
- Receive and review petitions
- Liaise between tenants and owners
- Facilitate voluntary agreements between parties
- Provide information and referrals to legal services

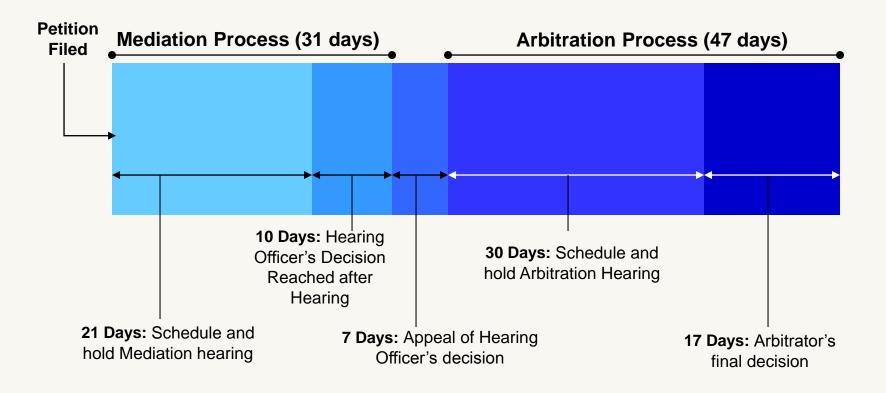
## **Types of Petitions**

- Filed by tenants
  - Excessive/multiple rent increases
  - Reductions in services
  - Housing code violations
- Filed by owners/managers
  - Cost pass-throughs

## Data on ARO Volume: FY 2010-11 to FY 2014-15

- 12,100+ customer interactions from
- 925 eligible petitions filed
- Pass-through petitions filed:
  - 14 debt-service
  - 1 capital improvement
  - No operations & maintenance pass-throughs filed
  - No rehabilitation pass-throughs filed

## **Petition Intake & Review Process**



## **Administrative Hearing Officers (AHO)**

- Independent contractors
- Preside over mediation/arbitration hearings
- Has background in mediation, arbitration, and/or law
- Onboarding to RRRP includes training
- Hearing decisions based on:
  - Evaluation of evidence
  - Reasonable standard
  - Burden of proof

## **Mediation**

- Preference is to reach a Voluntary Agreement (VA)
- VA may be reached without need for mediation hearing
- If petition is eligible and goes to mediation
  - Voluntary agreement
  - If VA is not reached, AHO makes decision
- For code violations, enforcement to ensure that remedy is achieved falls under purview of Code Enforcement (PBCE)
- Decision can be appealed to arbitration
- Breach of decision goes to arbitration

## **Arbitration**

- If mediation goes to arbitration, different AHO is assigned
- AHO will determine an outcome, which is binding
- AHO cannot require repairs to be made (Code Enforcement)
- Arbitration decision appealable to the Courts

## **Housing Code Violations**

- Code violations may be considered a rent increase during the violation period
- Related to health & safety issues
- Examples
  - Broken appliances
  - Mold or infestations
  - Unsecure doors or windows
  - Dangerous utlities/plumbing
- Must be inspected/verified by City's Code Enforcement
- Petition can be filed if repair request is not completed

## **Reductions in Service**

- Lease agreement based on package of services/amenities
- Reduction of services/amenities without a corresponding rent decrease considered a rent increase
- Examples
  - Removal of parking
  - Removal of/decreased access to common space
  - Elimination of /inaccessible laundry facilities
  - Housing code violations

## **Fee-Based Program**

- RRRP has been 100% cost-recovery through annual fee
- ARO units: \$12.25 per unit per year (FY 2015-16)
- Non-ARO units: \$1.95 per unit per year (FY 2015-16)

- Thao lives on the second floor of an ARO building.
- For months, Thao has asked her landlord to fix the creaky stairs.
- One day she almost falls down the stairs because the step came loose.
- Thao receives notice of rent increase of 8%. She thinks this is unfair and files a petition. Is the petition valid?

**Most likely yes.** An independent hearing officer will review the case and can lower the annual rent increase if the tenant can prove that a reduction in services exists or that the landlord has failed to repair housing code violations. The hearing officer cannot force the landlord to make repairs.

- On May 1, 2015, Ruben and Nova moved into an ARO apartment with laundry facilities and designated parking
- Everything looked good during the walk-through
- Two months after moving in, they notice mold, cockroaches, a faulty heater and stove, locked laundry facilities, and removal of their parking space
- Ruben and Nova notify their landlord, to no avail, so they file a petition
- What issues can Ruben and Nova file in their petition?

Service Reduction:

Laundry facilities

Lack of Parking

Housing Code Violations:

**Broken Stove** 

**Broken Heater** 

Mold

Cockroaches

## **Preview of Focus Questions**

- What is the appropriate allowable annual increase?
   What is the appropriate framework to determine this?
- Does the current provisions for cost pass-throughs, in particular for debt-service, balance the needs of tenants and owners?
- What is the appropriate balance of tenant protections and allowing owners/managers to remove tenants who violate the terms of their rental agreement?
- Does the petition process balance the rights of both tenants and owners as provided by the ARO?
- Should the RRRP have a more robust data collection, monitoring, and/or enforcement function?

# Open Forum

This time is reserved for comment on items not on the Agenda

# **Meeting Schedule**

Date	Time	Location	
Wednesday, September 30	6:00 - 8:30pm	Roosevelt Community Center	
Wednesday, October 7	6:00 - 8:30pm	Roosevelt Community Center	
Wednesday, October 14	6:00 - 8:30pm	Roosevelt Community Center	
Saturday, October 17	10:00am - 2:00pm	Bascom Library	
Wednesday, October 21	6:00 - 8:30pm	City Hall Wing Rooms 118-120	
Saturday, October 24	10:00am - 2:00pm	San Jose High School Cafeteria	
Wednesday, October 28	6:00 - 8:30pm	City Hall Wing Rooms 118-120	
Saturday, October 31	10:00am - 2:00pm	Roosevelt Community Center	
Wednesday, November 4	6:00 - 8:30pm	Roosevelt Community Center	
Saturday, November 7	10:00am - 2:00pm	Roosevelt Community Center	
Monday, November 9	6:00 - 8:30pm	City Hall Wing Rooms 118-120	

#### **Timeline**

- November 2015: HCDC
- Early-Mid November 2015
  - Complete analysis
  - Develop recommendations
- December 2015: Council considers recommendations
- January 2016: Return to Council with amendments to the Ordinance

## **Ground Rules**

- Speak candidly and listen openly
- Question ideas, respect Committee members
- One person speaks at a time

Next Meeting:
Wednesday, October 7
6:00pm
Roosevelt Comm. Center
Classrooms 1 & 2